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C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 006454

SIPDIS

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TAGS: [PREL](#) [ECON](#) [EFIN](#) [KPAL](#) [GZ](#) [IS](#) [ISRAELI](#) [PALESTINIAN](#) [AFFAIRS](#) [GAZA](#) [DISENGAGEMENT](#)  
SUBJECT: NETANYAHU AND PERES PRESENT STARKLY DIFFERENT  
ASSESSMENTS OF PALESTINIAN FUTURE TO CODEL TALENT

Classified By: Pol/C Norm Olsen for reasons 1.4(b) and (d).

**11.** (C) Summary: Finance Minister Binyamin Netanyahu told CODEL Talent December 6 that the new Palestinian leadership must show serious intent to fight terror and corruption before receiving any "gifts" from the U.S. or Israel. Netanyahu said that the GOI should simply "walk out of the Gaza Strip and leave the place to whatever bad Palestinian government fills the vacuum," and he identified corruption "so endemic that it chokes everything," rather than GOI closure policy, as the primary negative factor affecting the Palestinian economy. Labor leader Shimon Peres was more upbeat in a separate meeting with CODEL December 6, saying that while he would defer "for a few years" any discussion with the Palestinians of the status of Jerusalem or refugee return, he saw no reason why serious discussion on border issues could not commence much sooner. Peres called the Palestinians "the most democratically developed Arabs," and advised donors to press the Palestinians to codify the separation of powers in a constitution as soon as possible to boost donor confidence that money donated would be well spent. Peres said that bringing the security services under control is the biggest challenge currently facing the PA, and lamented the fact that they had become so politicized under Arafat. Neither Peres nor Netanyahu would assign a specific dollar amount to the costs associated with the GOI's disengagement plan, with Peres demurring, he said, because the cost is so high that everyone is reluctant to discuss it.

End Summary.

**12.** (SBU) Senator James Talent, accompanied by Military Legislative Assistant Lindsey Neas, Legislative Fellow Lore Aguayo, and Navy Senate Liaison Deputy Director Cpt. James Stein, met separately with Minister of Finance Binyamin Netanyahu and Labor Party leader Shimon Peres December 6. Poloff (notetaker) accompanied.

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Squeeze the Palestinians, Cautious but Tough with the Saudis  
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**13.** (C) Minister of Finance Binyamin Netanyahu told CODEL Talent December 6 that Arafat's death might open up possibilities with the Palestinians that absolutely did not exist while Arafat was alive. Calling Arafat the embodiment of the pan-Islamists and the pan-Arabists, Netanyahu said that even Shaykh Yassin (the spiritual leader of Hamas, killed by an IAF missile strike in April 2004 in Gaza City) "kowtowed to Arafat," accepting what Netanyahu called Arafat's "dual hats." Netanyahu said that the Oslo Accords had "empowered Arafat the dictator," providing him money, weapons, and prestige, with only the hope that he would push the Palestinian people towards peace in return. The international community, Netanyahu continued, woke up 10 years later and realized that the opposite had occurred, and Palestinian frustration with Arafat had been re-directed into increased hatred of Israel.

**14.** (C) Netanyahu said that if the new Palestinian leadership wants anything from either the U.S. or Israel, then they must first show some serious intent to take action against terrorism and corruption. "Squeeze them," Netanyahu said, "and just maybe you will get some sort of result." If Israel is wise, it will simply "walk out of the Gaza Strip and leave the place to whatever bad Palestinian government fills the vacuum." Radical Islam threatens not only the West, Netanyahu said, but Islam itself. In response to Senator Talent's question, Netanyahu said he does not believe that Saudi Arabia is "waking up." On the contrary, Netanyahu called Saudi Arabia a furnace that is breeding more radical elements and spreading them all over the world. While he applauded the U.S. for taking on what he called the worst of regimes in Afghanistan and Iraq, Netanyahu advised caution in Saudi Arabia, fearing that any subsequent regime there could well be worse for U.S. and Israeli interests than the one currently in power.

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"Feeding the Crocodile"  
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**15.** (C) On Iran, Netanyahu said that it is absolutely vital that Iran be prevented from acquiring nuclear weapons. Should they acquire a nuclear arsenal, Netanyahu predicted that Israel would feel it immediately, even if indirectly, as

Hizballah would have an even stronger umbrella under which to hide. Asked about the European negotiations with Iran on Iran's nuclear enrichment program, Netanyahu was extremely skeptical, noting that Europe tends toward accommodation rather than confrontation. Each European regime, Netanyahu said, is trying to "feed the crocodile," casting off elements such as support for Israel or a tough stance against radical Islam in the hope of appeasing the very people they should be opposing.

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It's Corruption, Not Closures  
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16. (C) Netanyahu said that Palestinian labor markets are completely dependent on Israel, a circumstance that has a major negative impact on the Palestinian economy, now that labor movements have been all but curtailed. He blamed corruption "so endemic that it chokes everything," however, as the primary factor affecting the Palestinian economy. Calling Palestinian society tribal by nature, Netanyahu said enforcement of legal norms and the right to property are essential missing elements. When asked what the U.S. could do to further reforms in the Palestinian areas and in the Arab world as a whole, Netanyahu said, first, continue to promote President Bush's agenda of zero tolerance for terrorism and for bringing democracy to the Middle East. Second, dismantle (unspecified) regimes that are hopeless cases for reform. Third, continue to fight the battle for hearts and minds of the people in the region.

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Peres: Palestinians Need to De-Politicize the Armed Forces  
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17. (C) In a separate meeting December 6, Labor Party leader Shimon Peres was guardedly positive regarding developments with the Palestinians, saying that, while he would not negotiate with them *per se*, he would "begin a dialogue." Major issues, Peres continued, such as refugee return and the status of Jerusalem, will have to wait for four or five years, because neither the Palestinians nor the Israelis are in a position to compromise now. That being said, Peres was confident that a solution to border issues could be worked out. Calling the Palestinians "the most democratically developed Arabs," Peres told Senator Talent that he would recommend to the Palestinians that they draft and adopt a constitution firmly defining the separation of powers as soon as possible after the January elections. Donors, including the Saudis, could then be effectively mobilized to support PA institutions.

18. (C) Peres said that the biggest challenge facing the Palestinians now is the urgent need to bring their security forces under control. Although Abu Ala'a is now head of the Palestinian National Security Council and thus in charge of all of the armed forces, Arafat had allowed the security forces to become politicized and the leaders of the various groups to become political leaders in their own right. The Palestinians, Peres predicted, will not be able to disarm the terrorist groups by force. Instead, it is essential that the PA offer a political solution backed up by a credible threat of force. Peres agreed with Senator Talent that increasing numbers of Arabs and Muslims are interested in democratization and more rights for women. Peres was less confident, however, as to the Arab countries' willingness to take on the difficult actions necessary to satisfy this demand and join the rest of the world.

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Disengagement Cost Remains Unclear  
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19. (C) Both Peres and Netanyahu were reluctant to assign a specific cost to disengagement. When asked, Netanyahu did not answer directly, saying instead "we will get back to you." Peres was somewhat less circumspect, albeit no more specific, saying that, although the GOI "has an idea" of the cost, people are avoiding the question because that cost will be so high. Peres agreed with Senator Talent's assessment, however, that regardless of the expense, disengagement would ultimately lower costs for Israel in the long run.

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Netanyahu: Economic Reform  
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10. (C) Netanyahu said that he is cutting government spending and taxes in Israel "with a vengeance," adding that he intends to remove mono- and duopolies in such areas as utilities, refineries and the postal service. Entitlements are being cut as well, Netanyahu said, comparing his efforts to transform the Israeli economy to the New Zealand government's efforts in the 1980's. By taking this "all at once" approach, he said, Israel will get the maximum positive impact from these steps, adding jokingly that it also helped

to "consolidate all the strikes."

**11.** (U) CODEL Talent cleared this cable.

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